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INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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RUEHBO/AMEMBASSY BOGOTA 3023
RUEHCV/AMEMBASSY CARACAS 9111
RUEHLP/AMEMBASSY LA PAZ FEB QUITO 0054
RUEHSG/AMEMBASSY SANTIAGO 0224
RUEHBU/AMEMBASSY BUENOS AIRES 2281
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SIPDIS

STATE FOR WHA/AND, WHA/EPSC AND EB/IFD/OMA
STATE PASS USTR (BHARMAN)
STATE PASS AID (LAC/SA)
TREASURY FOR G. SIGNORELLI
COMMERCE FOR 4331/MAC/WH/MCAMERON
DEPT OF ENERGY FOR DPUMPHREY/GARY WARD/SARAH
LADISLAW/MANOLIS PRINIOTAKIS

SENSITIVE
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SUBJECT: FLIRTING WITH DISASTER? OLLANTA HUMALA'S ECONOMIC
POLICIES

REF: A) LIMA 494
B) LIMA 382

¶1. (SBU) Summary: The rise in the polls of the ultra-nationalist, anti-system presidential candidate Ollanta Humala has created considerable interest and concern about the kinds of economic policies he would implement as President. He has not yet offered an economic platform, and it is not clear that he has given economic policy much thought. However, what he has said in speeches and press interviews tracks with a Chavez/Morales economic model. He opposes the free trade agreement with the U.S. He supports government control of natural resources. He openly admires the presidency of General Velasco, who oversaw large-scale expropriations and nationalizations. Although Humala and his economic team talk about maintaining low inflation, small budget deficits and honoring foreign debt commitments, the core of his beliefs are protectionist and statist. End Summary

Humala Effect

¶2. (SBU) Ollanta Humala's emergence as a serious contender for the presidency of Peru created brief but not insignificant economic turmoil in Peru. The stock market dropped 6.5 percent on December 19, its biggest one-day drop since 2000, reacting to both the first round victory of Bolivian President Evo Morales and the release of a poll showing Humala running second in the presidential campaign. The manager of Peru's largest shopping mall told Embassy Econoffs that his mall suffered significant sales declines in the days following the release of the poll numbers. Peruvian bonds temporarily lost value as Humala's popularity rose.

¶3. (SBU) Humala has not yet offered a comprehensive economic plan. What is known about his positions comes from a couple

of news interviews and comments made by his economic advisors. Humala's statements tend to be broad, and when pressed for details, he says that experts will work out the details. It is quite likely that Humala has not given much thought to economic issues beyond a rudimentary level. Post has culled available sources for an analysis of Humala's economic beliefs; Embassy personnel did not meet directly with Humala's campaign staff.

Nationalist Economics

¶4. (U) The central thread in Humala's economic pronouncements is a fervent nationalism. This core belief appears to have been embedded by the two most prominent influences in his life; the military and his family. Ollanta Humala spent 20-years in the military, taking part in the wars against the Shining Path and Ecuador and leading a coup attempt in 2000. He was raised in an ultra-nationalist family that stressed a politics based on racial purity. Humala's father is a former communist and founder of a race-based movement called Ethnocacerism.

¶5. (U) Ethnocacerists are anti-globalization, anti-democratic and anti-Chile (Ref A). Ollanta Humala was a leader of the Ethnocacerist party until December 2005 when he had a very public split with his father and the party. There is some question whether the split was real or staged to distance himself from the party's more extravagant beliefs and from his brother Antauro, who led a bloody but unsuccessful uprising in Andahuaylas in January 2005. Whatever the circumstances, Humala's proposed economic policies reflect his strong nationalist beliefs.

Channeling Hugo

¶6. (U) Most of Humala's economic positions appear to fit squarely in the Chavez/Morales model of increased state control of national resources and anti-U.S./pro-Latin America trade policies. He is also a strong admirer of Juan Velasco Alvarado, an army General who led a successful coup in Peru in October 1968 and served as President until he himself was overthrown in August 1975. Velasco's administration nationalized entire industries, expropriated power, telecommunication and mining companies, tightened import controls and seized and redistributed farms across the country. While voicing admiration for Velasco, Humala has said that his policies would be different since times and circumstances have changed.

The Brain Trust

¶7. (SBU) Humala's closest economic advisors are Gonzalo Garcia Nunez, candidate for first Vice President and a former Central Bank Director, and Felix Jimenez, an economics professor and former Ministry of Economy and Finance official. In newspaper interviews, the two have described relatively orthodox, if at times vague economic policies. Both mention that an Humala administration would maintain some of the current government's policies, such as maintaining low inflation and small budget deficits. A visiting group of international investment advisors met with Garcia and Jimenez the week of February 6, and told us they were surprised and relieved that their proposals were not more outlandish. It is unclear how much influence either advisor has on the candidate.

That 70's Show: Government Control of Energy Resources

¶8. (U) Humala and his advisors have been clear that an Humala Administration would increase government participation in the energy sector. His advisors talk of reviewing the gas and petroleum tax stability contracts, and Humala has said that he intends to ".place the resources at

the service of (Peruvian) nationals." However, the rebalancing of government participation would come through negotiations rather than expropriation. His advisors point to Bolivia as an example of how the process could take place.

National Capital and Foreign Investment

¶9. (SBU) Humala and his advisors say that his government would favor "national capital investments," but they do not explain what that means or how it would work. An Humala administration would welcome international investors as long as they ".pay their taxes, pay royalties, create jobs and transfer technology." At the same time, the candidate has stated clearly Chile would not be permitted to invest in Peru's ports. The Chileans are direct maritime competitors and not very good at running ports, according to Humala. (Note: Other front-running candidates, reacting to Humala's statements, made similar statements about restricting Chilean investments in ports. The success of Humala's populism has forced the candidates to veer towards some of his positions, such as limiting Chilean investments and questioning whether President Toledo and the current congress should ratify the U.S. trade accord, see Ref B.) Humala has said that the existing investment contracts would be reviewed, but he appears to mean that he intends to

ascertain whether the agreements were reached in a legal manner.

Against U.S. Trade Accord

¶10. (U) Humala is not vague about his opposition to the free trade agreement with the U.S. "I'm against it," he said recently. He warns that it will ".destroy agriculture and benefit other very small sectors that are not going to advance Peru towards development." He says that the Toledo government does not have the "moral authority" to sign the agreement, and the current Congress should not review and ratify it. If the trade deal is ratified before he comes to office, he has vowed to revise it. He has called for more public information about the agreement, and possibly a national referendum. He warns that the agreement could contain secret side letters, like the kind that ".handed Leticia over to Colombia in 1922 or Tiwinza to Ecuador." While Humala is anti-free trade with the U.S., he says that Peru should focus on building a Latin American trade block.

This Sea Is Our Sea

¶11. (U) Humala is equally clear regarding the maritime dispute with Chile. Ceding anything to Chile ".would be treason to the motherland." He referred to the Convention of the Sea as ".globalization of the sea, for the benefit of the big fishing fleets." Humala has talked about reviving Peru's fishing fleet and reinforcing the merchant fleet: "It's not acceptable that our graduates from merchant marine school get their first jobs in fleets carrying a flag that is not ours."

Yet Another New Model: Globalization and Peruvian Identity

¶12. (U) Although Humala and his advisors say that they are not anti-globalization, the candidate has said that globalization is ".drilling a hole in the Peruvian economy, weakening our identity." An Humala administration would protect Peruvians from the "pernicious effects" of globalization by protecting certain sectors, such as agriculture. At the same time, he says that globalization is a fact of life, with both good and bad aspects.

¶13. (U) Humala and his team say that one five-year term is not enough to create a whole new economic model; therefore, they aspire only to laying the foundation. One aspect would

be "consolidating" the domestic markets, by protecting important sectors for national development. Again, the example they give is agriculture. The candidate has hinted at restricting food imports to spur demand for domestically produced products. This is one of the Velasco policies that failed spectacularly in the 70s. Humala has said that he would shift the balance of power away from "big capital."

Things We Like

¶14. (SBU) Humala's economic plans are mostly protectionist and statist. He and his advisors, however, do highlight certain sound economic policies that have created strong economic growth in Peru. Inflation would be kept low. Government budget deficits would be small. Foreign debt obligations would be honored. His advisors stressed these points to the visiting international bankers to good affect.

Comment: A Bad Idea Whose Time Has Come?

¶15. (SBU) Humala is probably not an economic deep thinker, so his policies are likely to adhere to his core nationalist principles. Those appear to be in the Chavez/Morales mold of greater state control and tighter trade restrictions. That model, however woeful, is in ascendance in this region. Morales' decisive victory gives Humala reason to believe it could sell in Peru as well. The halt of Humala's rise in the polls, however, may suggest that the constituency for these types of failed policies is not large enough to win the presidency. For that reason, Humala may start to veer towards more orthodox, free market policies, at least in public. More likely is that he will continue to make vague statements on economics and hope to win on other issues.

ARELLANO